VI. APPLICATIONS AND USES OF THE COST OF GROWTH MODEL

The *Cost of Growth Model* was conceived as a City-maintained tool for conducting fiscal impact analysis on development projects and more general development commitments such as Comprehensive Plan amendments. While the fundamental purpose of the *Model* is to improve City decision-making regarding land use planning and development project decisions, the *Model* can also serve as a management tool, evaluating the potential effects of structural revenue changes and public service delivery options. As such, the *Model* reflects the fact that the "costs of growth" (i.e., the municipal costs and revenues that derive from new development) are a function not only of "demand" for new services, but also of what services are provided and how they are provided. Accordingly, the *Model* has a range of uses related to City policy-making and administration, in addition to "fiscal impact analysis" intended to determine the cost of growth. The following chapter addresses the following uses and relationships of the *Model* within City government:

- Growth Management
- Budget Process
- Level of Service Standards
- Existing Policy Documents, Procedures, and Data
- Capital Improvement Program

Policy makers and City staff will need to have a common understanding of how municipal costs will increase as planned development builds out and at what point economies of scale and staffing efficiencies can be attained. The CGM needs to be used as a "problem solving" tool that must be equally understood and accessible to both policy-makers and City staff. The results of specific *Model* runs will often suggest certain policy changes. Unless both staff and policy makers believe in the credibility of the *Model* results, and are willing to implement the necessary policy changes, the CGM will not be useful tool.

GROWTH MANAGEMENT

The *Cost of Growth Model* was originally conceived to estimate the long-term fiscal consequences of growth-related actions by the City (e.g., development project approvals, municipal annexations, and Comprehensive Plan amendments). Despite a rapid rate of commercial growth in the City and fiscal policies intended to promote sustainable and balanced revenue sources, operating revenues currently generated have been shown to be inadequate to match the long-term costs of providing services and facilities needed to support new development. The CGM will allow testing of various solutions to this problem.

APPLICATIONS

1. *Apply the CGM as a part of major development approvals.*

A principle application anticipated for the CGM is development project analysis. Historically, fiscal analysis were often conducted as a part of environmental review, but not all projects included fiscal analysis, and the methods used were inconsistent and not sound in all cases. The CGM will allow the City to conduct fiscal analysis as a part of all major project approvals, in a cost-effective and consistent manner. It is possible that in some large projects, the project proponents or City consultants would conduct research and analysis that could contribute to the CGM. Such applications can help determine the need, if any, for project-specific fiscal mitigation measures.

2. *Apply the CGM as a part of major Comprehensive Plan amendments.*

The CGM can also help evaluate the impacts and merits of Comprehensive Plan amendments, either project-specific amendments or larger area-wide or Citywide amendments. For example, the CGM could provide an analysis of the impacts resulting from changing potential development mix and densities as reflected in the Comprehensive Plan. This information can help the City determine the impacts of comprehensive land use policy and balance the variety of community goals and policies associated with new development.

3. *Study the impacts of large-scale potential annexations.*

A case study application of CGM has addressed the impact of annexing the Plateau to the City. This is an example of how the CGM can be applied. An actual evaluation would require more refined assumptions and data. The results of fiscal analysis conducted on an annexation area can help establish the necessary tax rates and terms of agreements between existing agencies (e.g., King County) and the City.

4. *Study the impacts and relationships with large scale unincorporated development.*

Large-scale unincorporated development (e.g., the East Redmond UPD's) will have a financial impact on the City. The CGM can be applied to determine the fiscal effects of such unincorporated development upon the City. This information can be used to support negotiations related to fiscal mitigation and cooperative agreements with existing service providers in the area.

LINKAGE TO THE BUDGET PROCESS

The CGM was designed to forecast municipal costs and revenues as a part of policy determinations, especially those related to development. The CGM was not designed to precisely predict departmental budget requirements as proposed by the Mayor and/or adopted by the City Council as a part of the Budget process.

As such, annual results of the *Model* will not necessarily reflect the particular decisions that will be made as a part of each budget; but rather, the *Model* reflects the cost and revenue implications of current budget resources, commitments, and service level policies in the context of the future growth.

The CGM is, however, based directly upon the City's Budget structure, cost, and revenue characteristics. This linkage to the Budget provides a key input for cost and revenue estimating methods used, and allows for updating as the Budget evolves from year-to-year. The linkage to the City's Budget can also help evaluate and establish future staffing plans, evaluate service delivery options, and anticipate major cost increases related to new facilities (e.g., fire stations), or services (e.g., new police patrols). Specifically, the CGM can be run as a budget planning tool and be used to test the budgetary implications of major changes in cost or revenue policy or circumstances, such as:

- The long-term impacts of proposed (or imposed) State legislation such as those associated with State economic development policies that forgive sales and use taxes on certain classes of machinery, equipment, and facilities.

- Key variables in the cost of municipal services, including level of services provided and the efficiency and/or cost effectiveness of services provided can be tested. For example, it is conceivable that a given level of service could be provided at a lower unit cost, assuming that a more cost-effective way of delivering the service could be found. The CGM will allow testing of alternative service provision methods.

APPLICATIONS

1. *Prepare annual forecast as a part of Budget preparation and monitoring.*

   The City Council has historically considered a budget forecast of municipal revenues and costs as a part of its annual budget deliberations. Consideration of the amount of revenue available in the near term future and expected departmental costs increase has been and will remain exceedingly important factors as the City Council establishes the current year departmental budgets, capital expenditure commitments, and revenue policies.

   The CGM provides the City with an improved forecasting model that should be used to generate short-term budget forecasts in the future. One of the key features of the CGM is that it links the inter-relationships between costs, revenues, city policy, and projected development in a single model. While refinements to the model will be required over time, the model provides a firm foundation for future short-term budget forecasting. The short term (six year) preliminary forecast of City costs and revenues that was prepared as a part of the first Biennial Budget (1997/1998) adoption process using the CGM was an example of this application.

2. ***Update CGM cost forecast module with Biennial Budget municipal costs.***

   The Finance Department has excellent historical records that have been used to calibrate the CGM. The CGM provides the Finance Department with a modeling framework for organizing and evaluating budget data as it becomes available. The components of the CGM will allow the City to build a consistent historical database of budget data.

3. ***Review departmental cost categories and fund accounting***

   Preparation and maintenance of the CGM rely upon data aggregated from the City's operating budget. As a part of the CGM preparation, a number of opportunities were revealed for standardizing budget structure among the various City departments. This effort will make CGM maintenance more efficient, and departmental budgets more transparent.

4. ***Review and monitor departmental cost recovery.***

   The CGM could be modified to measure the amount of cost recovery achieved by departments collecting user fees and charges, and test the impact of adopting additional, higher or lower, user fees and charges. This information can also help gauge impacts of reduced user charges that may result from a downturn in development activity caused by a recession or simply as the City approaches buildout.

LEVEL OF SERVICE STANDARDS

"Level of Service" standards are measures used to describe the quantity and quality of services provided by public agencies. The Level of Service concept is based on the premise that there is a connection between achieving quantitative targets for given public services and sustaining the quality of the service provided to residents and businesses in a community.

The City's level of service standards, including those adopted by policy and those established by budget commitments, are a principle factor in determining the cost of City services. The CGM incorporates current policy-based level of service standards and de facto standards implied by the budget as a basis for its cost estimating techniques.

Level of Service standards provide the City Council, the Planning Commission, City staff, and citizens with a benchmark upon which to measure the degree of impact resulting from Comprehensive Plan amendments, project approvals or denials, particular capital investments, budget allocations, and staff changes. Based upon the potential impacts identified, the City policy-makers can take the appropriate action to maintain the adopted Level of Service. These modifications may include adding staff (or achieving greater efficiency from existing staff resources), increasing investment in capital facilities, denying or modifying the proposed development project or plan, or reducing service levels elsewhere to offset identified impacts.

APPLICATIONS

1. ***The Level of Service standards applied in the Cost of Growth Model can be tested for affordability and adjusted as necessary to balance quality of service with affordability.***

   The CGM can test the effect of different Level of Service standards on the City's operations budgets. This information will allow policy makers to anticipate budget problems and respond with adjustments in demand, revenues, or the Level of Service standards.

   Levels of Service standards need to be sensitive to the type of growth expected to occur. Redmond is unusual in that more growth in jobs is planned and proposed than growth in the resident population. Thus, Level of Service standards must accurately measure the impact of employees. While employees may not demand as much municipal service as residents, they will still have an impact on most operating departments and particularly on roads, transit, police, fire, parks, and recreation services.

LINKAGE TO EXISTING POLICY DOCUMENTS, DATA, AND INFORMATION GATHERING

The Cost of Growth Model has been prepared as an integrated component of ongoing City policy documents, procedures, data gathering, and maintenance. The CGM is related to these varying aspects of City operation in a number of ways, including policy making (e.g., fiscal evaluation of land use policy) as discussed above. The CGM also relies upon data collected by City departments, most importantly land use information collected and maintained by the Community Development Department, but also specific data gathered by operating departments such as "calls for service" data collected by the Police Department. The Cost of Growth Model builds on existing policy, data bases, and procedures currently used by the City, rather than requiring independent data which would impose additional burdensome data collection efforts on City staff.

Table 7 describes key computerized systems being used and information gathered by the various City Departments to track costs, revenues, and services that relate, in one manner or another, to the CGM. The systems are organized by department. The purpose of the system is noted along with the related module and relationship to the CGM.

Table 7
Relationship of Existing Procedures and Systems to the Cost of Growth Model (CGM)
City of Redmond Cost of Growth Model

Department	Existing Redmond System	Applicable CGM Module	Status in CGM	Comments
Finance	Budget - Ross Accounting System	Cost & Revenue modules	Remains external to CGM	Used to define base year costs and revenues in CGM
Finance	Sales & use tax data - STARS Report: type of system unknown	Revenue module	Remains external to CGM	Provides data on retail sales by industry. Base year data is imported into the Sales Tax Module
Finance	Salary & Benefit program - Access Database	Cost module	Remains external to CGM	Provides information on labor costs by staff person; data is used to estimate staff by department in the CGM
Finance	Revenue forecast - Lotus spreadsheet	Revenue module	Incorporated into CGM	Functionality and features enhanced in CGM
Planning	Permit Tracking System - type of system unknown	Development module & Revenue module	Remains external to CGM	Not currently used in CGM. Should be used to develop pipeline project listings.
Planning	Planned Development Projects - not computerized	Development module	Remains external to CGM	Used to develop pipeline project listings.
Planning	Land Capacity - Parcel database – Big Red	Development module	Remains external to CGM	Used in CGM to define base year land use and development capacity.
Planning	Long-term Forecast	Development module	Incorporated into CGM	Now incorporated into the development forecast module of CGM
Police	Master Log of Calls for Service:	Cost module	Remains external to CGM	Call for service data by land use used in CGM to forecast future police CFS
Fire	Incidence Data	Cost module	Remains external to CGM	Call for service data by land use used in CGM to forecast future fire CFS and allocate fire costs.

APPLICATIONS

1. ***The data and information available in existing City data bases must be coordinated with the CGM.***

   The efficiency and practicality of the CGM will depend in large measure upon the degree to which it is integrated into ongoing City activities and operations. Such integration will assure its utility, familiarity, and cost-effectiveness.

2. ***There have recently been completed several studies that will affect future policies and budgeting decisions considered in the Cost of Growth Model. The findings of these studies must, in all cases, be coordinated with the Cost of Growth Model.***

   - A set of Impact Fee Ordinances have been adopted that provide an ongoing source of capital funding. The fee ordinances can be incorporated into CGM to generate estimates of the fee revenue.

   - A Public Facilities Plan is proposed. This will provide an assessment of long-range space needs for the City government. As this is completed, the information should be incorporated into the facility forecast module of CGM.

   - A User Fee Study has been completed. This study provides a comprehensive review of all Citywide indirect costs for support departments and allocation to the General Fund and specific enterprise funds. This study has been used to estimate the General Fund overhead fee charges in the CGM.

   - A Compensation Study is currently being conducted which addresses salary structure, job descriptions, and salary ranges for City staff excluding the uniformed police, fire, and maintenance employees. The results of this study should be used to modify the wage and salary cost impact, if deemed necessary.

3. ***The Cost of Growth Model is integrated with a number of data bases, systems, and technical procedures currently used in the City of Redmond.***

   While the CGM effectively uses a variety of existing City data sources, there may be other opportunities to incorporate data from the existing procedures and systems into the Cost of Growth Model, and also to use the Cost of Growth Model output for specialized analytical purposes. Existing procedures are incorporated in one of two ways: (1) the procedure can remain external to the Cost of Growth Model with specified data inputs or outputs, or (2) the procedure could be fully incorporated into the Cost of Growth Model, in which case, the Cost of Growth Model would supersede the existing system. The table above sets forth the current status of the data and procedures in terms of the incorporation into the CGM.

LINKAGE TO CAPITAL IMPROVEMENT PROGRAM

The City has adopted a six-year Capital Improvement Program that is funded by a combination of General Fund transfers; the Arterial Street Fund (developer mitigation contributions as required under SEPA); Restricted Interest; Vehicle Registration Fees; the Real Estate Excise Tax; and Interest Earnings. General Allocable Funds (GAF) are distributed across five "functional areas" of the capital investment program. These budget commitments have a direct impact upon the operating budget and are modeled by the CGM.

The City's adopted Capital Improvement Program (CIP) has a direct impact on the ongoing operations and maintenance costs incurred by the City; as facilities are built, they need to be regularly maintained and provisions need to be made for their eventual replacement. Furthermore, current methods of funding the CIP rely on the General Fund being able to produce significant fiscal surpluses now and in the future.

APPLICATIONS

1. *The CGM provides a linkage between the CIP and its effect on operating department's annual budgets for maintenance of facilities such as roads and parks.*

   The Capital Improvement Program (CIP) is currently developed in six year planning cycles with biannual updates with no direct linkage to the annual operating budget process. The CGM now provides a linkage between the department's operating budgets and the CIP so that the effect of new facilities on the City's fiscal well being is tested.

2. *The linkage between the Capital Improvement Program, adopted Levels of Service, and the distribution of General Allocable Funds can be evaluated.*

   The City has adopted a policy for allocating General Fund revenue for capital improvements to the following functional areas: transportation (45 percent), parks and recreation (20 percent), fire (15 percent), police (10 percent), General Government (5 percent) and Council Contingency (5 percent). The CGM can be modified to test the adequacy of this allocation with respect to achieving adopted levels of service. The CGM can show the effect on the fiscal balance of diverting General Fund revenues to the CIP.

3. ***The CGM can test the fiscal consequences of adopting and consistently implementing a "sinking fund" approach to asset depreciation and replacement.***

   Capital facilities, such as roads, recreational equipment, City buildings, and traffic lights, need to be replaced as they wear out. A "sinking fund" approach allows funds to be set aside that are tied to a life-cycle for each major asset. The City currently has partially funded asset replacement reserves but may not have adequately budgeted for all facility and asset replacements. Therefore, the true costs of growth are not internalized, and planned for until such provisions are made for each major facility constructed. The CGM provides the user with the option to increase the replacement reserve funding level to the fully-funded amount and to test the effect of increasing these reserves on the General Fund fiscal balance.